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SENSITIVE

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SUBJECT: THE PORT OF MOMBASA: DETERIORATION, DISORGANIZATION, AND CORRUPTION

Sensitive but unclassified. Not for release outside USG channels.

¶1. (SBU) SUMMARY: The Port of Mombasa is the largest port in the Horn of Africa, and is the economic lifeblood for the entire East Africa region. It is managed by a wholly-owned government parastatal, the Kenya Ports Authority (KPA). The Port is currently overwhelmed by a growing trade volume, especially from containerized imports. All GOK operators at the Port, including KPA, Customs, and police, are widely viewed as corrupt and inefficient. The real and opportunity costs to business in the region has many looking for alternatives to Mombasa, either through other ports in the region or increased reliance on airfreight. The KPA and its management have been caught up in a number of scandals related to the transshipment of drugs, allegations of corruption, and poor procurement and management practices. The KPA is also a source of political anger and frustration for the local community, which broadly feels disassociated from the Port's economic benefits. The KPA has plans for new equipment it hopes will smooth operations, but the possibility of commercialization of port operations is still a long-term prospect. Poor and deteriorating road and rail linkages add further delays and expense to doing business in Kenya, all to the detriment of Kenya's prospects for new private investment. Mission programs to improve Port security and effectiveness are limited due to concerns about the GOK's sincerity to fix the port. Given the pivotal role the Mombasa Port plays in the region's economic well-being, USAID's Regional Economic Development Services Office (REDSO) is exploring a coordinated approach to training and technical assistance that includes other donors and NGOs. END SUMMARY.

THE PORT OF MOMBASA AND THE KPA

¶2. (U) The Port of Mombasa is the largest port in the Horn of Africa, and as such is probably Kenya's greatest strategic asset. It is the economic lifeblood for not only Kenya, but also for Uganda, Rwanda, Burundi, Southern Sudan, and Eastern Congo. It is managed by a wholly-owned government parastatal, the Kenya Ports Authority (KPA), and is one of Kenya's biggest revenue generators. The KPA employs about 5,000 workers at the Mombasa port and another 200 or so combined at administrative offices in Nairobi and at KPA's two inland container depots in Nairobi and Kisumu. The majority of exports through Mombasa destined for the U.S. transit Sanaa or Dubai, where they are often consolidated, or re-consolidated with other cargo.

¶3. (U) Policy formulation for the KPA is vested in a Board of Directors under a Chairman appointed by the Transportation Minister. The Board appoints the Managing Director, who is also a member of the Board, and has the responsibility for the day-to-day running of the Authority. The Board comprises twelve members including the Permanent Secretaries in the Ministries of Transport and Finance, the

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Attorney General, and the Managing Director of the Kenya Railways Corporation.

ECONOMIC BOTTLENECK

¶4. (SBU) Because it is so critical to the rest of the economy, the port also constitutes Kenya's greatest infrastructure bottleneck, due primarily to mismanagement, corruption, and outdated capital stock. The port has been unable even to keep up with growing two-way trade between Kenya, the region, and the rest of the world. The port's container terminal has an official annual capacity to process 250,000 twenty-foot equivalent units (TEUS), but in 2004, handled over 430,000 TEUS. For months, the Kenyan and regional press has been reporting on the ever-growing backlog of containers and bulk freight piling up at the port awaiting processing. Containers are stacked four and five high across the container terminal, and it is

difficult for an observer to identify any usable space. A March 10 report cited an average of 6,000-10,000 containers lying at the port on any given day over the past six months. The storage yard's official capacity is 5,000 containers. As a result, port users are facing the prospect of being assessed stiff Vessel Delay Surcharges (VDS) by shipping lines whose ships are sitting off the quay waiting to be unloaded. One U.S. consumer goods importer claims it generally has "dozens" of containers backed up at the port, all being levied demurrage charges by the KPA.

¶5. (SBU) Mismanagement also means the Port currently has a severe equipment shortage. While KPA has announced plans to purchase additional cargo and container handling equipment in the coming year, many observers are skeptical about timely implementation. During a visit to the Port almost two years ago, Embassy GSO officers were told that new ship-to-shore cranes were on order and would be in service soon. As of mid-February 2005, they had not arrived. While the Port officials claim to have computers for tracking containers, there is no indication of any operational system. The port has two X-ray scanners but the larger, static (and more efficient) unit is broken and not operational. [NOTE: The public tender to supply these scanners was awarded to a Chinese company over the objections and legal appeal of a U.S. bidder who claimed irregularity in the decision process. END NOTE.]

¶6. (U) A container's average dwell time at Mombasa Port is approximately 14 days, with much of this caused by preventable delays in paperwork and clearances. (By comparison, dwell time in the Port of Durban is less than three days, and for world-class ports like Singapore, it can be less than one day.) The cost to the economy of this excessive dwell time is estimated at more than $128 million yearly. Retrieving a specific container can take days as workers carry-out visual searches and then wait for one of the few top loaders to become available and move the containers around, as in a shell game, in order to collect the targeted unit. Adding to delays caused by this physical congestion is red tape. It currently takes 29 distinct steps (and 11 customs-related stamps) to clear imports. In response, KPA Managing Director Brown Ondego reportedly has asked the Kenya Revenue Authority (KRA) to license additional Container Freight Stations near the Port to help decongest the port's container terminal.

HINDERING MISSION OPERATIONS

¶7. (SBU) The U.S. Mission's own day-to-day experiences dealing with the Port provide ample evidence of the mismanagement and inefficiency there. The KPA charges storage fees for containers in the terminal despite being the cause of the port's inefficiency. Recently, three containers of building material for the new USAID building were assessed over $30,000 in storage fees while awaiting customs and security clearance. [NOTE: Subsequently, Embassy GSO successfully had those charges reversed. END NOTE.] At that price, for many customers airfreight becomes a viable option even for material generally deemed too heavy or bulky to be cost effective via air cargo.

¶8. (SBU) Other mission goods have also been delayed at the port. Currently, we have an OBO container of construction materials that has been there since January. One Mission member's HHE has been in the terminal since 22 February. Post's contract transport company initially could not locate this container for more than one week, and it is still awaiting a slot for onward transport to Nairobi.USAID/Kenya has had greater success at the port, but only by expending a great deal of time and energy in forging strong relationships with the KRA and KPA in Mombasa. Most companies and organizations don't have the resources to engage in this form of "relationship management" at the Port.

BAD ROADS AND RAILS COMPOUND THE PROBLEM

¶9. (U) As the most important port in the region, the vast majority of imports to Uganda and Southern Sudan go through Mombasa. Compounding the problem for inland destinations is the disastrous state of Kenya's roads and rail, and long delays at borders. Current average transit time by road from Mombasa to Kampala (718 miles) is 20-22 days; to Kigali (876 miles), 40 days; to Bujumbura (1,093 miles), 60 days. Twenty years ago 80% of the cargo going to Uganda was transported by rail. Now, with the deteriorating rail beds and rolling stock, only 20 percent goes by rail (approximately 2.5 million tons per year, compared to 10 million tons transported by road), compounding the container logjam at the Port's terminal.

¶10. (SBU) Aside from the poor roads, bandits are a threat

to trucked cargo. Embassy contract shipper Transami suspends most over-land shipments during the hours of darkness due to the high threat of theft.

CORRUPTION AND POLITICS

¶11. (SBU) KPA Managing Director Brown Ondego was arrested on January 6, 2005 in connection with allegations of corruption at the port following a seizure of cocaine worth approximately $85 million said to have passed through the port with KPA and Customs complicity. He was freed on a police bond the next day allegedly after intervention from GOK Cabinet members. Police investigating the cocaine shipment raised additional corruption allegations related to a computer installation that reportedly lost $12 million and Ondego was suspended on January 18. Compounding the confusion, Ondego was reinstated on February 9 by the Ministry of Transport, which claimed, "there was unnecessary anxiety at the port." As a result of this drug case, Kenyan police have demanded 100 percent inspection by scanner of every container. With the critical lack of scanning equipment, this has further exacerbated the port's bottleneck.

¶12. (SBU) Depending on who you believe, Odengo and his team are either negligent for allowing illegal drugs to pass through the port, or unlucky to be caught. However, the KPA also has its defenders. Embassy GSO heard from freight forwarders who have a very high regard for the integrity of the Port management team. One company official claimed that Ondego was arrested because he was "too diligent and was interfering with corruption by local officials, namely the Kenyan Police."

¶13. (SBU) The drug bust and subsequent flip flops on who was involved are just the latest examples of widespread and deeply-rooted corruption at the Port of Mombasa. It is perhaps no coincidence that as one of the country's biggest revenue generators, the port, including all co-located GOK agencies (Kenya Customs, Police, Transport and Railway) is widely regarded as one of the country's most corrupt institutions. In a variety of surveys and studies, importers, exporters and business associations identify the inefficiency and corruption at the Port as one of the most significant hurdles to improved business and investment in Kenya. Views vary, however, on who is the worst offender. The Kenyan Customs Office, which is an agency of the Kenya Revenue Authority (KRA), is most widely cited by shipping and transport companies as the most pervasive player of the graft and bribe game at Mombasa Port.

¶14. (SBU) Two recent KPA tenders, for new container cranes and tugboats (priced at approximately $20 million and $23 million, respectively), were included in a recent list of twenty suspect deals highlighted by British High Commissioner Edward Clay in an ongoing effort to expose high-level corruption in the Kenyan government. Recently, however, the Kenya Anti-Corruption Commission announced that while the Kenya Police continues to investigate the tugboat tender, the container crane procurement is no longer under investigation due to the lack of prima facie evidence of wrongdoing.

¶15. (SBU) Apart from the drag on the economy from the Port's current mismanagement, the KPA is also a source of political anger and frustration in the Coast areas. Embassy Poloff has heard repeated complaints from Mombasa Mayor Taib, local politicians, and others in the community about the Port and the apparent lack of benefit it brings to the local economy. All eleven KPA board members come from areas outside of the Coast (mostly up-country), and the general feeling is that the GOK's administration of the Port is a prominent example of how the government marginalizes the Coast. [NOTE: More on Coastal attitudes towards the Port and the Kibaki administration will be reported Septel. END NOTE.]

PRIVATIZATION? DON'T HOLD YOUR BREATH

¶16. (U) Two years ago the Port was targeted for privatization, but the GOK has backed away from that position. Ondego has speculated publicly that the KPA might become a landlord operator with most of the port activities being contracted out to private firms, including maintenance of marine craft (dockyard), stevedoring of conventional cargo, and operation of bulk products. The KPA is apparently also considering concessioning the Mombasa container terminal and the inland container depots, the construction of a modern cruise passenger terminal in partnership with a private investor, and the establishment of a free trade zone. A long-term strategic plan calls for the container terminal to become a separate entity from the KPA, but this is unlikely to happen in the next five years.

¶17. (U) Meanwhile, the Kenya Railway Corporation (KRC) and the Uganda Railways Corporation (URC) are scheduled to be jointly concessioned this year, with a private company taking over most of the joint rail operations by December. Both Kenya and Uganda have committed to capital improvements in the rail track and equipment as part of the agreement, but it is not clear from where the countries will find funding for the project.

¶18. (U) Given both the KPA and GOK's limited financial resources, donors will be targeted to help with any port improvements. Despite strong business and revenue growth (in 2004, KPA earned approximately USD173 million), KPA is saddled with more than $90 million in debt. KPA's Ondego has cited a number of long term liabilities for the Port, including backdated taxes and interest, pension requirements, and a range of outstanding foreign and domestic loans. The Japanese government is set to fund the conversion of some conventional berths into a second container facility. The KPA has recently drafted a port Master Plan, which includes an expansion of the container holding area to meet the growing demand.

COMMENT: WHAT CAN BE DONE?

¶19. (SBU) We view the current situation at the Mombasa port with alarm. The port has never had a reputation for efficiency or security, and the situation seems to be worsening. The material to facilitate the 2002 Kikambala terrorist attacks came through the port and despite the current directive for 100% scanning of containers, we do not have confidence that the port provides adequate security for smuggling of contraband, narcotics, or other dangerous items. Given the culture of corruption at the port, "100 percent scanning" does not guarantee an effective anti-contraband program, and this new step is widely seen as another bribery transaction point. At the same time, the container backlog and delays for clearing imports threatens business productivity and does nothing to reverse Kenya's increasingly negative investment climate.

¶20. (SBU) Despite its problems, the KPA is a revenue machine that the GOK is reluctant to give up. Japan is reportedly considering financing a major expansion of the container terminal, at an estimated cost of $205 million. That kind of money makes every cabinet minister look for opportunities to play a part in the port's future. Classified as one of Kenya's "strategic parastatals," KPA has many GOK supporters willing to accept the status quo. At a recent UNCTAD-sponsored investment climate review workshop, at which many Kenyan institutions, including KPA, were roundly criticized, Assistant Minister for Trade and Industry Zaddock M. Syongoh made the remarkable assertion that "along with KQ (Kenya Airways), the KPA is one of Kenya's most successful organizations, proving that Kenyanmanagement can be top quality." We don't doubt that Kenya Airways is well-run, or that there are excellent Kenyan managers, but including the KPA in that definition is pure GOK spin.

¶21. (SBU) This mission, through DHS, has provided assistance to Kenyan customs and immigration inspectors, and has worked with the Kenya Revenue Authority to verify the origin of AGOA-related textiles that are exported through Mombasa. However, finding an inroad to assist with the massive problems facing the Port is extremely difficult. A considered strategy has emerged to identify key players in the private sector and NGO community to work together to exert pressure on the GOK to implement forward-looking policies that promote U.S. and other investment in this regional port. Such an approach would mobilize port users into an effective "constituency for reform" that builds and advances a collective agenda and offers coordinated input into the GOKs design and implementation of port policies.

¶22. (SBU) To this end, USAID/REDSO is considering a new project to organize and support regional stakeholders concerned about corruption and inefficiency along the Northern Corridor, most of which stems from the port. The KPA, KRA and many regional private sector firms have expressed an interest in enhancing their integrity efforts to collaborate with the project. However, following the apparent failure of port-focused projects by the U.K. and the United Nations in recent years, this Mission and REDSO are carefully deliberating on how to design such an intervention for maximum effectiveness. END COMMENT.
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